

## Message Text

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PAGE 01 ROME 01973 01 OF 02 111629Z

41

ACTION EUR-25

INFO OCT-01 NEA-11 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03

LAB-06 NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02

SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03

FEA-02 OMB-01 SAM-01 EA-11 DRC-01 SWF-01 /219 W

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R 111500Z FEB 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1313

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL MILAN

AMEMBASSY MOSCOW

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY WARSAW

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 1973

E.O. 11652: NA/A

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PAGE 02 ROME 01973 01 OF 02 111629Z

TAGS: EAGR, IT

SUBJECT: FOOD AND AGRICULTURE AND ITALY'S ECONOMIC CRISIS

SECSTATE PASS AGRICULTURE AND STR

REF: ROME 1848

1. SUMMARY: ITALY'S PRESENT BALANCE OF PAYMENTS SITUATION AND ITS ECONOMIC CRISIS RESULT IN GREAT PART FROM ITS DEPENDENCY ON IMPORTS OF FOOD AND AGRICULTURAL AND PETROLEUM PRODUCTS. THIS CRISIS WILL HAVE AN IMPACT ON US AGRICULTURAL EXPORTS TO ITALY (IN 1973 OVER \$650 MILLION) BUT ALSO FORCES THE GOI TO TRY TO PRODUCE MORE ANIMAL PROTIENS(WHICH REPRESENT TWO-THIRDS OF ITALY'S TOTAL FOOD AND AGRICULTRAL IMPORTS ON A VALUE BASIS).

END SUMMARY

2. HOW TO PAY FOR THE IMPORTS FOR FOOD AND AGRICULTURAL PRODUCTS (MAINLY MEAT, CORN, WHEAT, SOYBEANS) MAY WELL PROVE TO BE A MORE COMPLICATED PROBLEM TO SOLVE THAN THE ENERGY PROBLEM TO WHICH SO MUCH ATTENTION HAS BEEN GIVEN. FOOD COSTS IN ITALY MAY STIR MORE POLITICAL WAVES THAN THE COST FOR PETROLEUM OR GASOLINE, CERTAINLY IN THE LONG RUN.

3. IN THE PERIOD JANUARY-NOVEMBER 1973, THE NET DEFICIT IN ITALY'S TOTAL FOOD AND AGRICULTURAL TRADE WAS 2.05 TRILLION LIRE (\$ 3 BILLION) COMPARED TO 1.23 TRILLION LIRE (\$1.7 BILLION OVER THE SAME PERIOD IN 1972. IN COMPARISON ITALY NET DEFICIT IN OIL TRADE FOR THE FULL YEAR 1973. WAS ABOUT 1.4 TRILLION LIRE (\$2 BILLION). UNLESS GOI MANAGES TO CURB IMPORTS OF FOOD AND AGRICULTURAL PRODUCTS, SUCH IMPORTS MAY SOAR OVER 3 TRILLION LIRE (\$4.3 BILLION)) IN CY 1974.

4. OF THE 2.05 TRILLION LIRE DEFICIT, IMPORTS OF ANIMAL PROTIENS ACCOUNTED FOR 1.31 TRILLION LIRE OR 64 PERCENT. (PRESENTLY ITALY IMPORTS MEAT AT A VALUE OF \$2.5 -\$3 MILLION/PER DAY). THE COMPOSITION OF ITALY'S MEAT IMPORTS IN AN EXPENSIVE ONE, MAINLY HIND QUARTERS OF BOVINE ANIMALS, THE MOST EXPENSIVE PART. VEGETABLE MEAT EXTENDERS ARE AS YET PROHIBITED BY LAW. ALSO, ITALY IMPORTS ANNUALLY AROUND 600,000 HEAD OF YOUNG CALVES TO BE FINISHED INTO WHITE VEAL, WHICH THE ITALIAN CONSUMER PREFERS LIMITED OFFICIAL USE

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PAGE 03 ROME 01973 01 OF 02 111629Z

BUT WHICH IS AMOONG THE MOST EXPENSIVE MEAT (CONTAINS 80 PERCENT WATER).

5. MEANWHILE ITALY'S OVERALL BALANCE OF PAYMENTS SHOWS A WORSENING DEFICIT WHICH MAKES FULL ATTENTION TO FOOD AND AGRICULTURE AN INESACAPABLE MUST.

6. AS TO FOOD AND AGRICULTURE, ITALY SEEMS BOXED IN. ON ONE SIDE

A STRONG DEPENDENCY ON FOOD AND AGRICULTURAL IMPORTS (WHEAT, FEED-GRAINS, SOYA, COTTON) AND HIGH WORLD MARKET PRICES. ON THE OTHER SIDE: FOR TOO MANY YEARS AGRICULTURE HAS BEEN TREATED AS A POLITICAL FOOTBALL (4 MILLION RURAL VOTES TO CENTER PARTIES). TO EXPLOIT NOW FULL POTENTIAL PRODUCTION AND CAPABILITY OF ITALIAN AGRICULTURE WOULD REQUIRE FUNDAMENTAL RESTRUCTURING WHICH A) AT BEST A LONG TERM PROPOSITION AND B) WOULD HAVE TO CUT INTO MATTERS SUCH AS LAND OWNERSHIP, ENLARGEMENT OF ARMY UNITS, ETC., WHICH GOI UNDER PRESENT UNSABLE ECONOMIC AND POLITICAL SITUATION MOST LIKELY UNABLE TO STOMACH.

7. SUGGESTED FUND OF 60 BILLION LIRE (\$85.7 MILLION) TO STIMULATE ITALY'S MEAT PRODUCTION NO DOUBT WILL HELP (SEE REFTTEL) BUT MAY COME TOO LATE TAKING INTO ACCOUNT THAT OVER PAST YEAR OVER 600,000 BOVINE ANIMALS WERE SLAUGHTERED RESULTING FROM INFLUX OF SUBSIDIZED THROUGH COMPENSATORY PAYMENTS) MILK AND MEAT FROM FRANCE/GERMANY BECAUSE OF LIRE DEVALUATION AS WELL AS FROM SHARP RISE IN FEED-GRAINS/SOYA PRICES AS WELL AS PRICES FOR FERTILIZERS (IF AT ALL AVAILABLE). ALTHOUGH MEAT RATIONING IN ONE FORM OR OTHER WOULD SEEM LOGICAL IN VIEW OF IMPORTANT FOREIGN EXCHANGE DRAIN DERIVING FROM MEAT IMPORTS, CONSUMER INFLUENCE MAKES GOI SHUN AWAY FROM SUCH MEASURE.

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PAGE 01 ROME 01973 02 OF 02 111638Z

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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 1973

SECSTATE PASS AGRICULTURE AND STR  
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PAGE 02 ROME 01973 02 OF 02 111638Z

8. AGATT OFFICE TOGETHER WITH US FEED GRAINS COUNCIL (ITALY) HAS TRIED OVER PAST FOUR YEARS TO CONVINCE MINAG AND REGIONS TO STIMULATE BESIDES BEEF ALSO SWINE, POULTRY, RABBIT AND FISH PRODUCTION WHICH NEED LESS CAPITAL, YIELD BETTER INPUT/OUTPUT RATIO AND FIT OVERALL ITALIAN SMALL FARM STRUCTURE. THESE EFFORTS NOW SEEM TO PAY OFF BUT UNLESS GOI ALSO ENGAGES IN FULL OUT EXPLANATION EFFORT ON NUTRITIVE VALUES OF AVAILABLE FOOD PRODUCTS, HOUSEWIFE (TO GIVE ONE EXAMPLE) MAY CONTINUE IN MUSSELMAN APPROACH TOWARDS CONSUMPTION OF PORK ONLY DURING WINTER MONTHS AS HAS BEEN CUSTOMARY SINCE MIDDLE AGES. UNLESS CONSUMERS FULLY UNDERSTAND THAT ONE CAN EAT WELL WITHOUT RESORTING TO MOST EXPENSIVE IMPORTED MEATS, WHATEVER EFFORTS FROM GOI IN FOOD SECTOR WILL BE CONSTRUED AS DIRECTED AGAINST CONSUMER INTEREST AND THEREFORE BE COUNTERPRODUCTIVE.

9. CONTINUED PRICE FREEZE ON SOME BASIC FOOD ITEMS MORE AND MORE RESULTS IN THOSE PRODUCTS NOT REACHING SHELVES AT RETAIL OUTLETS AND STIMULATES BLACK MARKETTING (RESULTING IN LAST WEEK'S IMPRISONMENT OF THE PRESIDENT OF THE ROMAN BAKERS ASSOCIATION). LETTING FOOD PRODUCTS FIND THEIR JUST PRICE LEVEL IN THE MARKETPLACE WILL ON THE OTHER HAND CONFRONT GOI WITH ONE MORE HEADACHE IN ITS EFFORT TO CURB RUNAWAY INFLATION AND RESTRAIN STRONG REACTIONS FROM LABOR UNIONS INCLUDING THREAT OF GENERAL STRIKE. THE BOX SEEMS TO HAVE NO ESCAPE HOLES.

10. THE SPECIAL FUND OF 100 BILLION LIRE (REFTEL) TO BE USED TO STABILIZE PRICES THROUGH SUBSIDIZING BASIC PRODUCTS, BOUGHT AT PRESENT HIGH WORLD MARKET PRICES (GOOD EXAMPLE HARD WHEAT) WILL NO DOUBT HAVE ITS EFFECT BUT UNLESS WORLD MARKET PRICES ON BASIC AGRICULTURAL COMMODITIES DROP QUESTION ARISES HOW OFTEN ITALIAN TREASURY COULD AFFORD TO MAKE SUCH FUNDS AVAILABLE IN FUTURE. IN AN EDITORIAL IN "LA VOCE REPUBBLICANA" THE (REPUBLICAN) MINISTER OF THE TRASURY, LA MALFA, POINTS TO AN INFLATIONARY TREND OF 1.5 - 2 PERCENT PER MONTH WHICH WOULD GIVE ITALY THE LEADERSHIP AS TO INFLATION IN EUROPE. LA MALFA CONCLUDES THAT GOI IS NOT FACED WITH CHOICE BETWEEN AN INFLATIONARY POLICY OR SOME OTHER POLICY, BUT WITH THE CHOICE BETWEEN FIGHTING INFLATION OR BEING FACED WITH SUCH A GRAVE ECONOMIC CRISIS AS TO RESULT IN THE NEED OF DRASTICALLY CURBING OVERALL IMPORTS AS WELL AS TO SERIOUS UNEMPLOYMENT. LIMITED OFFICIAL USE

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PAGE 03 ROME 01973 02 OF 02 111638Z

11. US EXPORTED LAST YEAR AGRICULTURAL AND FOOD PRODUCTS TO ITALY AT VALUE OF AROUND \$650 MILLION IN FIRST TEN MONTHS. WHAT HAPPENS TODAY IN ITALY MUST HAVE ITS IMPACT ON ITS CAPABILITY OF CONTINUING SUCH PURCHASES FROM US AMONG OTHER COUNTRIES AND CONSEQUENTLY US AGRICULTURAL COMMODITY INTERESTS SHOULD BE ALERT TO THESE DEVELOPMENTS.

12. COMMENT: AS AN AGRICULTURAL PRODUCER ITALY RANKS IN MANY RESPECTS AMONG THE CATEGORY OF DEVELOPING COUNTRIES. THE OBVIOUS CORRELATION BETWEEN HIGH PRICES FOR SOURCES OF ENERGY AND THOSE OF BASIC AGRICULTURAL COMMODITIES -- BOTH ESSENTIAL TO DEVELOPING COUNTRIES -- WILL NO DOUBT CAST ITS SHADOW ON DISCUSSIONS TO BE EXPECTED DURING THE WORLD FOOD CONFERENCE 1974. VOLPE

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## Message Attributes

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**TAGS:** EAGR, PINT, IT  
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